

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell, Joseph T. Kelliher,
and Sudeen G. Kelly.

PJM Interconnection, L.L.C. and
Virginia Electric and Power Company

Docket No. ER05-87-000

ORDER ACCEPTING TARIFF SHEETS FOR FILING,
SUBJECT TO CONDITIONS

(Issued December 21, 2004)

1. On October 28, 2004, PJM Interconnection, L.L.C. (PJM) and Virginia Electric and Power Company (Dominion) (collectively the Filing Parties) submitted for approval, pursuant to section 205 of the Federal Power Act (FPA),¹ proposed rates and related revisions to PJM's operating agreements for the purpose of integrating Dominion into PJM under an expansion arrangement known as "PJM South."² The Filing Parties state that while Dominion is solely responsible for those aspects of their filing addressing rate matters, the Filing Parties are collectively proposing certain conforming non-rate amendments to the PJM open access transmission tariff (PJM OATT) and the PJM South Reliability Assurance Agreement. For the reasons discussed below, we will accept the Filing Parties' filing, subject to conditions.

Background

2. On May 11, 2004, the Filing Parties submitted for approval, in Docket No. ER04-829-000, *et al.*, a joint proposal to establish PJM as the Regional Transmission

¹ 16 U.S.C. § 824d (2000).

² In an order issued October 5, 2004, we accepted the Filing Parties' proposal to establish PJM South, subject to conditions. *See* PJM Interconnection, L.L.C., *et al.*, 109 FERC ¶ 61,012 (2004), *reh'g pending* (PJM South Phase I Order).

Organization (RTO) for Dominion within Dominion's existing service territory, *i.e.*, within PJM South. The Commission accepted that filing, subject to conditions. The Filing Parties' proposal, however, did not include the proposed rates that would be applicable to PJM South. Rather, the Filing Parties proposed to address these matters in a second, "Phase II" filing, as submitted herein.

3. Dominion states that the proposed transmission rates set forth in its revised tariff sheets are based on a proposed revenue requirement of \$155,000,000, applicable to the following PJM OATT rate schedules: schedule 7 (Firm Point-to-Point Transmission Service); schedule 8 (Non-Firm Point-to-Point Transmission Service); and Attachment H-16 (Network Integration Transmission Service). Dominion notes that this proposed revenue requirement is the same revenue requirement currently reflected in Dominion's tariff, which was previously approved by the Commission, in Docket No. OA96-52-000, as part of a 1997 settlement agreement.³

4. Dominion also seeks to recover a separately-stated revenue requirement of \$22,222,702, applicable to PJM's schedule 2 rates (Reactive Power Service). Dominion states that this proposed revenue requirement is also reflected in Dominion's currently effective rates for Reactive Power Service, which went into effect August 1, 2004, subject to refund and the outcome of the proceedings established by the Commission in Docket No. ER04-898-000.⁴

5. Dominion states that its proposed tariff revisions also include a new proposed Attachment H-16A crediting mechanism (Virginia Retail Administrative Fee Credit for Virginia Retail Load Serving Entities in the Dominion Zone). Dominion states that its proposed Attachment H-16A mechanism would require Dominion to pay PJM's Schedule 9 charges (Administrative Fees) for all retail load serving entities selling to Virginia retail customers that are interconnected to Dominion's local distribution system, until such time as the Virginia retail rate cap period terminates. Dominion states that this mechanism is necessary in order to allow Dominion to defer its recovery of certain RTO-related start-up costs, as authorized by the Commission in the PJM South Phase I Order.⁵

³ See Virginia Electric and Power Company, Docket No. OA96-52-000, June 11, 1997 (unpublished letter order).

⁴ See Virginia Electric and Power Company, 108 FERC ¶ 61,108 (2004) (Dominion Schedule 2 Rate Order) (order accepting and suspending rates and establishing hearing and settlement judge procedures).

⁵ See PJM South Phase I Order at P 50.

6. The Filing Parties also propose to revise Attachment C-1 to the PJM OATT to specify the procedures for converting existing transmission reservations from the Dominion Open Access Same-Time Information System (OASIS) to the PJM OASIS. In addition, the Filing Parties propose to add the Dominion Zone to the PJM zone map shown at Attachment J of the PJM OATT and to add Dominion's name to the list of transmission owners reported at Attachment L.

7. The Filing Parties also propose to modify the PJM South Reliability Assurance Agreement, consistent with the modifications previously accepted by the Commission for PJM and PJM West, in orders issued following the Filing Parties' initial PJM South submissions in Docket No. ER04-829-000, *et al.*⁶ Dominion also requests that the ten pre-Order No. 888 coordination/interchange agreements identified in the appendix to the Filing Parties' filing be accorded grandfathered status, consistent with their current grandfathered status under Dominion's currently effective tariff.

8. Dominion also notes that its rate proposals do not include a proposed harmonization of its rates for new and existing facilities, as required by the Commission in the PJM South Phase I Order.⁷ Dominion states that this proposed harmonization is unnecessary at this time, given PJM's withdrawal, in Docket No. ER04-156-000, *et al.*, of the schedule (proposed schedule 12-A) that would have specified PJM's charges for newly constructed facilities.

9. In support of its rate proposals, Dominion asserts that its filing is generally consistent with the Commission's prior approval of similar filings to add transmission owner zones under PJM's existing rate design. Specifically, Dominion argues that the instant filing is substantially equivalent to the PJM rate integration proposals made by Rockland Electric Company, in Docket No. ER02-109-000, *et al.*,⁸ and by Commonwealth Edison Company and Commonwealth Edison Company of Indiana, Inc., in Docket No. ER04-367-000, *et al.*⁹

⁶ See PJM Interconnection, L.L.C., 107 FERC ¶ 61,113, *order on reh'g*, 108 FERC ¶ 61,302 (2004); PJM Interconnection, L.L.C., Letter Order, Docket No. ER04-687-000 (May 17, 2004); PJM Interconnection, L.L.C., *et al.*, 108 FERC ¶ 61,318 (2004), *reh'g pending*.

⁷ PJM South Phase I Order at P 33.

⁸ Rockland Electric Company, 97 FERC ¶ 61,357 (2001).

⁹ PJM Interconnection, L.L.C., 106 FERC ¶ 61,357 (2001).

10. The Filing Parties request that the proposed rates necessary to integrate PJM South into PJM be made effective on the later of December 1, 2004, or a date to be determined shortly after the date on which all approvals required to effect Dominion's membership in PJM have been received.¹⁰

Notice and Responsive Pleadings

11. Notice of the Filing Parties' filing was published in the *Federal Register*,¹¹ with interventions and protests due on or before November 18, 2004. Notices of intervention and motions to intervene were timely submitted by Ingenco Wholesale Power, L.L.C. (Ingenco); Coral Power, L.L.C. (Coral); North Carolina Electric Membership Corporation (North Carolina Cooperative); the Virginia State Corporation Commission (Virginia Commission); Exelon Corporation (Exelon); Virginia Municipal Electric Association No. 1 (Virginia Municipal); and the Southeastern Power Administration. Protests and comments were filed by Ingenco, Coral, North Carolina Cooperative, and the Virginia Commission.

12. Ingenco, in its comments, clarifies its understanding regarding the terms and conditions of the distribution-level service it will be entitled to receive following Dominion's integration into PJM South. While Ingenco raises no objection to the integration proposal submitted by the Filing Parties, it seeks to preserve its rights regarding the future filings it anticipates and the proposals that may be made therein regarding the distribution-level delivery charges and balancing charges to which it will be subject under its interconnection agreements with Dominion and under the PJM OATT.

13. Coral points out that the Filing Parties' integration proposal appears to leave unaddressed the recovery of its revenue requirement for Reactive Power and Voltage Control covering a merchant generation facility located in Fluvanna County, Virginia (Fluvanna Station), in which it has an interest. Coral requests that the Commission accept the Filing Parties' proposal, subject to the requirement that the Filing Parties explain how Coral's revenue requirement for the Fluvanna Station will be recovered.

¹⁰ Dominion notes that in the PJM South Phase I Order, the Commission accepted Dominion's initial request for an effective date of November 1, 2004, or a date to be determined shortly after the date upon which all approvals required to effect its membership in PJM have been received. Dominion states, however, that given the current status of required regulatory approvals, Dominion does not expect that such approvals will be in hand early enough to have considered a November 1, 2004 integration date.

¹¹ 69 Fed. Reg. 65,168 (2004).

Coral argues that if the revenue requirement attributable to the Fluvanna Station is not included in the Filing Parties' proposal, the Commission should require the Filing Parties to include it.

14. The North Carolina Cooperative seeks clarification regarding Dominion's proposed annual transmission rates for Network Integration Transmission Service, specifically, Dominion's proposal to both: (i) flow through as charges to network customers certain tax liabilities that may be incurred by Dominion (*see* Attachment H-16 at section 4); and (ii) recover, separately, Dominion's full annual transmission revenue requirement (*see* Attachment H-16 at section 1). The North Carolina Cooperative seeks clarification that Dominion's proposed section 4 charge will not over-compensate Dominion for costs that may already be included in Dominion's section 1 charge.

15. In addition, the North Carolina Cooperative seeks clarification regarding Dominion's proposed Attachment H-16A crediting mechanism for Virginia retail load serving entities in the Dominion Zone. Specifically, the North Carolina Cooperative seeks clarification that in deferring recovery of these administrative fees (PJM's schedule 9 charges) from Virginia retail ratepayers until the Virginia retail rate cap has ended, Dominion's wholesale customers will not be required to subsidize the administrative fee credit implemented by Attachment H-16A.

16. The Virginia Commission also raises concerns regarding Dominion's proposed Attachment H-16A crediting mechanism and urges that it be rejected. The Virginia Commission argues that Dominion's proposed mechanism is based on an erroneous interpretation of the Commission's findings in the PJM South Phase I Order, regarding Dominion's entitlement to defer the recovery of its RTO-related costs. The Virginia Commission asserts that, in fact, the PJM South Phase I Order did not authorize this deferral. Rather, the Virginia Commission argues that the PJM South Phase I Order merely concluded that the Commission could not, at this time, determine whether or not its standard for regulatory asset treatment had been met, including its required showing that the costs at issue would be unrecoverable in Dominion's existing rates.¹² The Virginia Commission asserts that Dominion has not made this showing.

17. Finally, the Virginia Commission seeks clarification that Dominion will be required to reaffirm its commitment to harmonize any rates it proposes to collect for the construction of new transmission facilities with its proposed license plate transmission zonal rates.

¹² *See* PJM South Phase I Order at P 54.

18. On December 3, 2004, answers were filed by PJM and Dominion. PJM's answer responds to Coral's concern regarding the recoverability of its Fluvanna Station revenue requirement. Dominion responds to the North Carolina Cooperative's concern regarding Dominion's recovery of its Attachment H-16 costs

Discussion

A. Procedural Matters

19. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,¹³ all timely filed motions to intervene are granted and any motions to intervene out-of-time filed before the issuance of this order are granted. Rule 213(a) of the Commission's Rules of Practice and Procedure¹⁴ prohibits an answer to a protest, unless otherwise permitted by the decisional authority. We will accept the answers filed by PJM and Dominion because they have clarified certain issues, as discussed below.

B. Analysis

20. We will accept the Filing Parties' proposed tariff revisions, to become effective the later of December 1, 2004, or the date on which Dominion integrates with PJM, subject to conditions and the outcome of certain related proceedings, as discussed below. Based on our preliminary analysis of the Filing Parties' proposed tariff revisions, and subject to the conditions set forth below, we find that the Filing Parties' integration proposal appears to be just and reasonable and has not been shown to be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful.

21. We will grant Coral's request for clarification regarding its entitlement to recover its Fluvanna Station revenue requirement in PJM's schedule 2 charges. Dominion's original schedule 2 charge under its Tariff¹⁵ aggregated all of the revenue requirements of all generation owners, Dominion's own generation revenue requirement of \$22,222,702 (as approved in the 1997 settlement agreement in Docket No. OA96-52-000), and the Fluvanna Station revenue requirement of \$1,179,258.39. The Fluvanna Station revenue requirement was accepted by the Commission in Docket No. ER04-680-000, *et al.*¹⁶ In

¹³ 18 C.F.R. § 385.214 (2004).

¹⁴ *Id.* at § 385.213(a)(2).

¹⁵ As submitted in Docket No. ER04-898-000.

¹⁶ Tenaska Virginia Partners, 107 FERC ¶ 61,207 (2004). *See* Dominion Schedule 2 Rate Order at P 5.
(continued ...)

addressing this aggregated revenue requirement in the Dominion Schedule 2 Rate Order, we stated that Dominion's aggregate schedule 2 charge under its Tariff would be temporary in nature, to the extent it included the Fluvanna Station revenue requirement. We found that once Dominion joins PJM, PJM would be responsible for paying the Fluvanna Station revenue requirement and passing these costs through to its customers under schedule 2 of the PJM OATT, not Dominion. Schedule 2 of PJM's OATT provides a mechanism for PJM to include the revenue requirement, as accepted or approved by the Commission, for each PJM generator that provides reactive power. Dominion's proposed schedule 2 revenue requirement, herein, was properly limited to include only Dominion's own generation revenue requirement.

22. However, PJM is required to compensate all generators that provide reactive power on its system, and the Commission has approved the revenue requirement for the Fluvanna Station.¹⁷ In its answer, moreover, PJM notes that Coral's stated revenue requirement appears to be correct and that it has no objection to adding this revenue requirement to its Schedule 2 charge. Accordingly, we will direct PJM to revise its schedule 2 charge to cover the Fluvanna Station revenue requirement, within 30 days of the date of this order.

23. We will also grant the North Carolina Cooperative's request for clarification regarding the tax liabilities for which a network customer will be responsible under section 1 and section 4 of Attachment H-16. As proposed, section 4 will allow for recovery of "sales, excise, 'Btu', carbon, value-added or similar taxes." While we agree that Dominion's section 4 charge should not include costs already recoverable under section 1, Dominion clarifies in its answer that this will not be the case here. Specifically, Dominion states that its section 4 charge will apply only with respect to incremental and new taxes that are not already reflected in Dominion's annual transmission revenue requirement. Dominion also correctly points out that this section 4 charge includes the same tariff language included by other transmission owners in PJM.

24. We will deny the Virginia Commission's protest regarding Dominion's proposed Attachment H-16A credit mechanism. In the PJM South Phase 1 Order, the Commission accepted Dominion's proposal to provide for regulatory asset treatment for PJM administrative costs.¹⁸ Attachment H-16A is simply the accounting tracking mechanism

¹⁷ See Schedule 2, Third Revised Sheet No. 229 (the Transmission Provider shall pay each generation owner an amount equal to the generation owner's monthly revenue requirement as accepted or approved by the Commission).

¹⁸ 109 FERC ¶ 61,012, at P 47-54.

resulting from the regulatory asset treatment provided in the PJM South Phase 1 Order, and does not result in any customers paying additional costs based on this filing. Attachment H-16A does not authorize the ultimate recovery by Dominion of the costs at issue. To recover these costs Dominion will have to make a filing under section 205 of the FPA, and its ability to recover these costs will be determined in that proceeding.¹⁹ Therefore, the Virginia Commission's protest concerning recoverability of these costs is outside of the scope of this proceeding.

25. We will grant the request for clarification sought by the North Carolina Cooperative regarding the cost effect of attachment H-16A on Dominion's wholesale customers. As discussed above, Attachment H-16A provides the accounting tracking mechanism for these costs, but does not authorize any charge on any customer, nor does it require one class of customers to subsidize any other class of customers.

26. Finally, we will grant the Virginia Commission's request for clarification that Dominion, like all other PJM transmission owners, will have to harmonize its rates for new and existing facilities in any rates filed in Docket No. ER04-156-000 or any subsequent dockets.²⁰

¹⁹ The PJM South Phase 1 Order, although accepting regulatory asset treatment for these costs, did not determine whether these costs are recoverable in a future rate case. 109 FERC ¶ 61,102, at P 54 ("at this time, we cannot determine with certainty that all of the costs at issue ... will ultimately be found, in a Section 205 proceeding, to be recoverable in future rates").

²⁰ Under the settlement agreement approved by the Commission in Docket No. ER04-156-000, *et al.*, PJM's transmission owners agreed to make a section 205 filing with the Commission on or before January 31, 2005 in compliance with Commission orders requiring a review of their existing license plate rate designs. The Settlement Agreement also specified that PJM's existing license plate rate design would be replaced by a new rate design to become effective June 1, 2005, subject to any hearing that may be ordered by the Commission. The settlement agreement also provides that, in that filing, PJM's transmission owners may propose to treat new and existing transmission facilities differently for ratemaking purposes, provided that they harmonize the rates, as required by the Commission.

The Commission orders:

(A) The Filing Parties' proposal is accepted, to become effective the later of December 1, 2004, or the date on which Dominion integrates with PJM, and subject to conditions, as discussed in the body of this order.

(B) The Filing Parties are hereby directed to make a compliance filing within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.